

Multiple Agency Fiscal Note Summary

Bill Number: 6690 E S SB 6690 AMS LIIA S7654.1	Title: Aerospace B&O taxes/WTO
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Estimated Cash Receipts

Agency Name	2019-21		2021-23		2023-25	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	134,000,000	134,000,000	229,000,000	229,000,000	225,000,000	225,000,000
Total \$	134,000,000	134,000,000	229,000,000	229,000,000	225,000,000	225,000,000

Estimated Operating Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.4	94,700	94,700	.0	0	0	.0	0	0
Department of Labor and Industries	Fiscal note not available								
Workforce Training and Education Coordinating Board	Fiscal note not available								
Total \$	0.4	94,700	94,700	0.0	0	0	0.0	0	0

Estimated Capital Budget Expenditures

Agency Name	2019-21			2021-23			2023-25		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Commerce	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Department of Labor and Industries	Fiscal note not available								
Workforce Training and Education Coordinating Board	Fiscal note not available								
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

NONE

Prepared by: Ramona Nabors, OFM	Phone: (360) 902-0547	Date Published: Preliminary 4/13/2020
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Individual State Agency Fiscal Note

Bill Number: 6690 E S SB 6690 AMS LIIA S7654.1	Title: Aerospace B&O taxes/WTO	Agency: 103-Department of Commerce
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Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Tracey OBrien	Phone: 360-786-7152	Date: 03/11/2020
Agency Preparation: Karen McArthur	Phone: 360-725-4027	Date: 03/12/2020
Agency Approval: Joyce Miller	Phone: 360-725-2710	Date: 03/12/2020
OFM Review: Gwen Stamey	Phone: (360) 902-9810	Date: 03/23/2020

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill is in regard to aerospace business and occupation taxes and world trade organization (WTO) compliance.

Section 2 is a new section and allows for a preferential rate of 0.357 percent to the business and occupation tax RCW 82.04.260(11)(e) to be implemented if the Department of Commerce verifies with the United States Trade Representative (USTR) that the United States (US) and the European Union (EU) have entered into a written agreement that resolves any WTO disputes involving large civil aircraft, and the department provides a written copy of the notice from the USTR to the Department of Revenue (DOR).

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

NONE

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

There is no fiscal impact to the department. Every state has an official state point of contact with the USTR, and the Washington state Trade Representative is housed within the department. The language in the bill does not clarify who at the department would receive notification, but we are assuming it would be the Washington State Trade Representative, and that these activities would be incorporated into the normal operating procedures within the department.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

Part V: New Rule Making Required

Department of Revenue Fiscal Note

Bill Number: 6690 E S SB 6690 AMS LIIA S7654.1	Title: Aerospace B&O taxes/WTO	Agency: 140-Department of Revenue
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2020	FY 2021	2019-21	2021-23	2023-25
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	18,000,000	116,000,000	134,000,000	229,000,000	225,000,000
Total \$	18,000,000	116,000,000	134,000,000	229,000,000	225,000,000

Estimated Expenditures from:

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.4	0.3	0.4		
Account					
GF-STATE-State 001-1	66,900	27,800	94,700		
Total \$	66,900	27,800	94,700		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☒ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Tracey OBrien	Phone: 360-786-7152	Date: 03/11/2020
Agency Preparation: Tyler McLeod	Phone: 360-534-1531	Date: 03/12/2020
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 03/12/2020
OFM Review: Ramona Nabors	Phone: (360) 902-0547	Date: 03/12/2020

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Note: This fiscal note reflects Senate amendment AMS LIIA S7654.1 to SB 6690, 2020 Legislative Session.

CURRENT LAW:

The general manufacturing business and occupation (B&O) tax rate is 0.484%, and the aerospace manufacturing B&O tax rate (specifically for commercial airplanes, their components, and tooling) is 0.2904%.

Out-of-state manufacturers who sell their manufactured goods in Washington pay B&O tax for retailing (0.471%) and wholesaling (0.484%) activities.

Out-of-state aerospace manufacturers who sell their aerospace manufactured goods in Washington pay B&O tax for both retailing and wholesaling activities at a single B&O tax rate of 0.2904%.

When a business performs more than one taxable activity related to the production and sale of the same product, it reports each activity under the proper B&O tax classification. However, the business receives the multiple activities tax credit (MATC) so B&O tax is not paid more than once on the same product. For instance, a business that both manufactures and sells a product at wholesale in Washington is entitled to the MATC so that the business does not pay both manufacturing and wholesaling B&O tax.

PROPOSAL:

Beginning April 1, 2020, this bill makes the preferential B&O tax rate for aerospace manufacturers inapplicable and, instead, taxes aerospace manufacturing and wholesaling at the standard B&O tax rate of 0.484% and retailing at a B&O tax rate of either 0.471% for tooling or 0.484% for commercial airplanes and their component parts.

After March 31, 2021, the aerospace B&O tax rates are reduced to 0.357% if all of the following conditions are met:

- (1) The Department of Commerce verifies with the United States Trade Representative that the United States and the European Union have entered into a written agreement that resolves any World Trade Organization disputes involving large civil aircraft.
- (2) Such agreement expressly allows a B&O tax rate reduction for commercial airplane manufacturers to either 0.2904% (changed to 0.357% in AMS LIIA S7672.2) or, if that rate is not permissible, a specific alternative tax rate, or a specific amount or maximum amount by which the existing tax rates may be reduced, that results in a tax rate of at least 0.357%.
- (3) The Department of Commerce notifies the Department of Revenue in writing that these conditions are met and provides a copy of the written notice from the United States Trade Representative to the Department.
- (4) The Department of Labor and Industries notifies the Department of Revenue in writing that a significant commercial airplane manufacturer has at least a 0.3% aerospace apprenticeship utilization rate of its qualified apprenticeable workforce in Washington.

No rate reduction if the written notice from the United States Trade Representative does not expressly specify either the specific allowable tax rate, or the specific amount or maximum amount by which the existing tax rates may be reduced as provided under the agreement between the United States and the European Union. (This provision was eliminated by AMS LIIA S7672.2.)

Any rate reduction to 0.357% must occur on the first day of the next calendar quarter that is at least sixty days after the Department of Revenue receives the last of the written notices described above.

If the aerospace B&O tax rates are reduced to 0.357%, both a significant commercial airplane manufacturer separately,

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and the rest of the aerospace industry as a whole, “will achieve” an aerospace apprenticeship utilization rate of 1.5% of their qualified apprenticeable workforce in Washington by the later of July 1, 2026, or five years after the effective date of the 0.357% tax rate. A “significant commercial airplane manufacturer” is defined as a manufacturer of commercial airplanes with at least 50,000 full-time employees in Washington as of January 1, 2021. (AMS LIIA S7672.2 clarifies that the significant commercial airplane manufacturer and the rest of the aerospace industry are each separately subject to the aerospace apprenticeship utilization rate of 1.5% of their apprenticeable workforce in Washington.)

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS

- The B&O tax rate increase is effective April 1, 2020, impacting two months of collections in Fiscal Year 2020.
- Growth rates based on the Economic and Revenue Forecast Council November 2019 forecast for B&O tax and the IHS Markit November 2019 forecast for Aerospace Products & Parts.
- The 0.357% rate does not take effect within the scope of this estimate.

DATA SOURCES

- Department of Revenue Fiscal Year 2019 Excise Tax Return data.
- Economic and Revenue Forecast Council November 2019 B&O tax forecast.
- IHS Markit November 2019 forecast for Aerospace Products & Parts.

REVENUE ESTIMATES

This bill increases state revenues by an estimated \$134 million in the 2019-21 Biennium and by \$229 million in the 2021-23 Biennium. This bill does not impact local revenues.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2020 -	\$ 18,000
FY 2021 -	\$ 116,000
FY 2022 -	\$ 115,000
FY 2023 -	\$ 114,000
FY 2024 -	\$ 113,000
FY 2025 -	\$ 112,000

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

This legislation will affect approximately 335 taxpayers.

FIRST YEAR COSTS:

The Department will incur total costs of \$66,900 in Fiscal Year 2020. These costs include:

Labor Costs - Time and effort equates to 0.4 FTE.

- Test and verify computer system changes to expire three tax return line codes.
- Update or create letter and web messages.

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- Update paper returns, templates, forms and scanning programming.
- Create a Special Notice and identify publications and information that needs to be created or updated on the Department's website.
- Respond to letter ruling requests, email inquiries, and more difficult call backs from the telephone information center.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

Object Costs - \$26,400.

- Contract computer system programming.

SECOND YEAR COSTS:

The Department will incur total costs of \$27,800 in Fiscal Year 2021. These costs include:

Labor Costs - Time and effort equates to 0.3 FTE.

- Update tax performance reports.
- Amend one Excise Tax Advisory.
- Amend two administrative rules.
- Process returns, payments and all associated work items, including issuing assessments for return errors and underpayments.
- Assist taxpayers with reporting questions and respond to inquiries via email, web message, and paper correspondence.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2020	FY 2021	2019-21	2021-23	2023-25
FTE Staff Years	0.4	0.3	0.4		
A-Salaries and Wages	25,400	18,600	44,000		
B-Employee Benefits	7,700	5,500	13,200		
C-Professional Service Contracts	26,400		26,400		
E-Goods and Other Services	4,700	2,800	7,500		
J-Capital Outlays	2,700	900	3,600		
Total \$	\$66,900	\$27,800	\$94,700		

III. B - Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

Job Classification	Salary	FY 2020	FY 2021	2019-21	2021-23	2023-25
EMS BAND 4	119,061		0.0	0.0		
EMS BAND 5	139,090		0.0	0.0		
EXCISE TAX EX 3	57,948	0.1	0.1	0.1		
MGMT ANALYST3	59,436		0.0	0.0		
MGMT ANALYST4	68,892	0.1	0.1	0.1		
RECORDS MGMT SUPV	65,592	0.1		0.1		
TAX INFO SPEC 4	62,460	0.1		0.1		
TAX POLICY SP 2	70,632		0.0	0.0		
TAX POLICY SP 3	79,944		0.0	0.0		
TAX POLICY SP 4	86,064		0.0	0.0		
WMS BAND 3	101,257		0.0	0.0		
Total FTEs		0.4	0.3	0.4		

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III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited rule-making process to amend WAC 458-20-267, titled: “Annual tax performance reports for certain tax preferences” and WAC 458-20-267A, titled: “Annual reports for certain tax preferences”. Persons affected by this rule making would include aerospace manufacturers.